

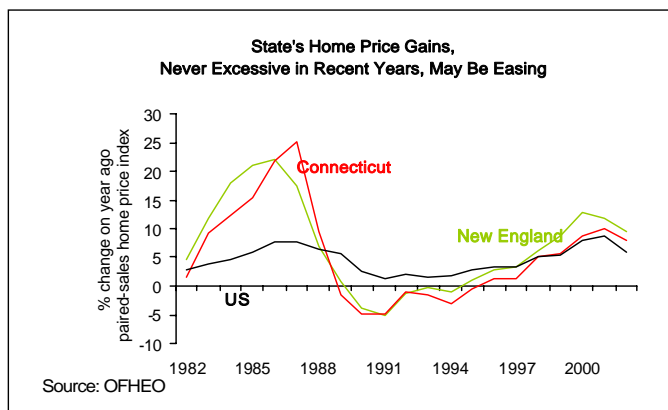
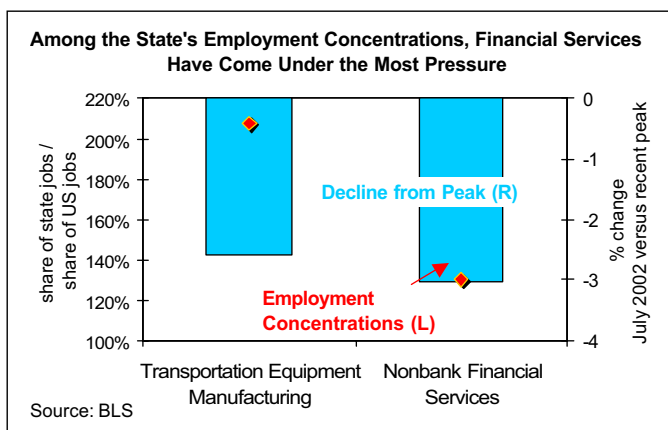
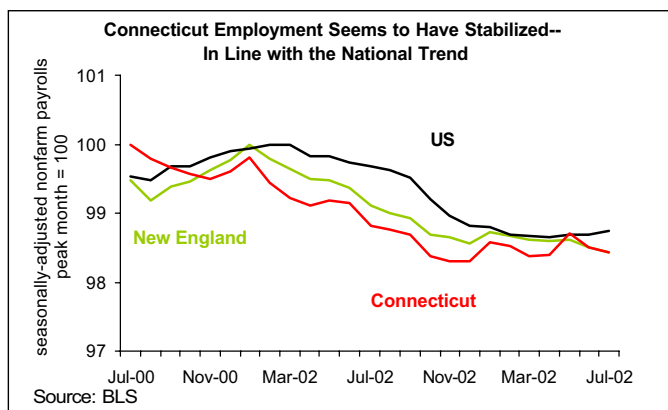
# FDIC State Profile

WINTER 2002

## Connecticut

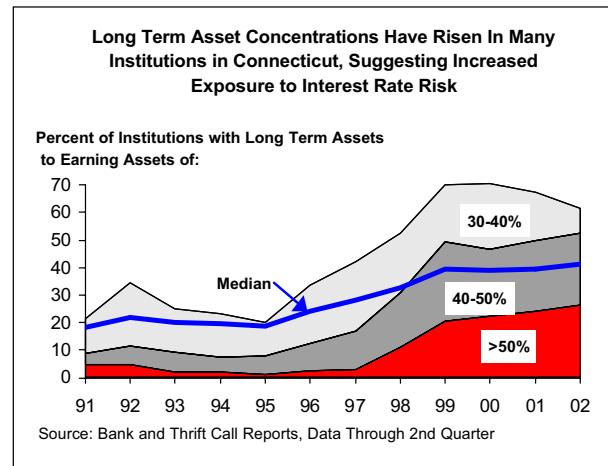
Connecticut's economy seems to have bottomed, but continued strength in the U.S. economy is important for the state's near-term economic outlook.

- Connecticut was the first New England state to see net declines in employment during this cycle.
- As a result, it may bottom sooner than other New England states affected by the national recession. Through July it appeared that Connecticut's payrolls had ceased falling, though they as yet show little net growth (see **top chart**).
- Connecticut's unemployment rate remains the lowest in New England, but this is due in part to a declining labor force which has blunted the effect of rising unemployment this year.
- The state's transportation manufacturing industry has shed about 3% of its payrolls since peaking in mid-2001. A normal cyclical trough in aircraft demand coupled with the shock of 9/11 to commercial air travel has clouded the outlook for the state's commercial aerospace manufacturers—though increasing defense orders may provide some offset.
- The ongoing bear market in stocks will continue to cloud the outlook for financial services employment and related income in the state, especially in areas proximate to New York City.
- The state is not as reliant on IT firms as are Massachusetts and New Hampshire, so the continued malaise in this sector is not likely to impede the state's economic growth.
- Reduced capital gains tax payments and significantly lowered corporate and personal income tax receipts could threaten state government spending and employment. Revenues from tribal casinos should provide some offset.
- Any negative stock market wealth effect on household spending has probably been offset significantly by strength in housing values (see **bottom chart**).
- It is likely that lackluster economic growth nationally will limit the state's ability to generate job and income growth for the remainder of this year.



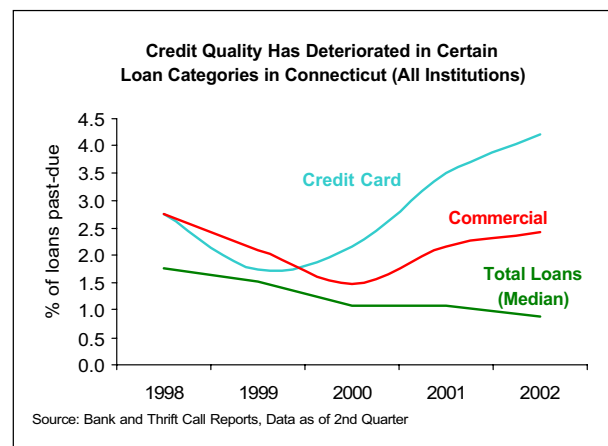
**Interest Rate Risk remains a concern for Connecticut institutions that increased concentrations of fixed, long-term assets during the recent refinancing waves.**

- With the conventional 30-year mortgage rate below 7.25% for the past 18 months, refinancing activity has been strong as borrowers seek to lock in long-term, fixed-rate loans at lower rates.
- During this time, asset maturities have lengthened at some institutions. Median long-term assets to earning assets is the highest it has been in the last decade (41 percent) and continues to rise, as one quarter of Connecticut's institutions now have long-term asset concentrations greater than 50%.
- This trend is especially pronounced in the state, as is true for the rest of New England, due to the large percentage of thrifts and residential lenders. Savings institutions represent roughly two thirds of insured institutions in Connecticut, and residential real estate loans comprise 57 percent of the average loan portfolio in the state.



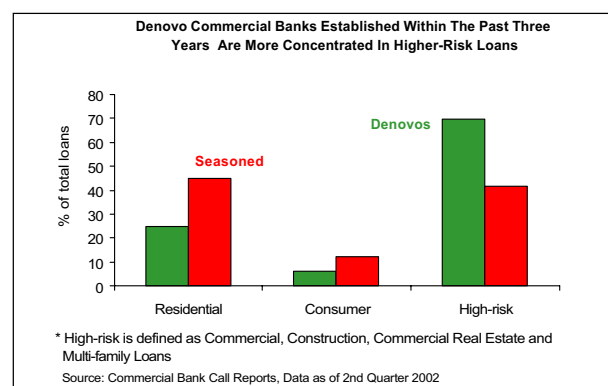
**Although overall credit quality improved during the second quarter, certain loan delinquencies deteriorated and could become more pronounced with the weak economy.**

- The median past-due ratio improved during the second quarter of 2002; however, commercial loan delinquencies increased throughout the state over the past year.
- One quarter of Connecticut's banks report high-risk<sup>1</sup> loan concentrations of at least 300 percent of capital. The **Stamford**, CT MSA had the third highest median high-risk loan concentration (394 percent) of all New England MSAs as of the second quarter, and exposure levels continue to increase.
- Portfolios in the state have been shifting towards traditionally higher-risk loans due to strong commercial, construction, and commercial real estate loan growth over past few years, which could contribute to further deterioration in asset quality.



**Denovo activity remains strong, as Connecticut has the largest share of new banks in the Region.**

- As of second quarter 2002, Connecticut had nine institutions under three years old, representing 13 percent of institutions. These banks may be more susceptible to economic downturns and may face challenges in less favorable economic climates.
- Loan growth in new commercial banks has been concentrated in traditionally higher-risk loan types, with 71 percent of total loans in commercial, commercial real estate, multi-family and construction loans, almost double their long-established, seasoned commercial bank competitors.



<sup>1</sup>High risk is defined as Commercial, Construction, Commercial Real Estate and Multifamily loans.

## Connecticut at a Glance

General Information	Jun-02	Jun-01	Jun-00	Jun-99	Jun-98
Institutions (#)	68	70	70	73	76
Total Assets (in thousands)	52,657,913	49,538,780	47,872,621	45,381,399	45,161,654
New Institutions (# <3 years)	9	10	8	5	1
New Institutions (# <9 years)	16	14	11	8	8
<b>Capital</b>					
Tier 1 Leverage (median)	9.20	9.78	9.57	8.86	8.95
<b>Asset Quality</b>					
Past-Due and Nonaccrual (median %)	0.89%	1.08%	1.08%	1.51%	1.77%
Past-Due and Nonaccrual ≥ 5%	0	3	3	2	4
ALLL/Total Loans (median %)	1.13%	1.16%	1.21%	1.28%	1.33%
ALLL/Noncurrent Loans (median multiple)	2.70	2.44	2.44	1.75	1.54
Net Loan Losses/Loans (aggregate)	0.35%	0.36%	0.25%	0.30%	0.36%
<b>Earnings</b>					
Unprofitable Institutions (#)	9	10	6	6	1
Percent Unprofitable	13.24%	14.29%	8.57%	8.22%	1.32%
Return on Assets (median %)	0.84	0.75	0.94	0.93	0.98
25th Percentile	0.51	0.45	0.63	0.61	0.75
Net Interest Margin (median %)	3.86%	3.79%	3.93%	3.81%	3.96%
Yield on Earning Assets (median)	6.34%	7.38%	7.43%	7.15%	7.59%
Cost of Funding Earning Assets (median)	2.43%	3.65%	3.60%	3.38%	3.69%
Provisions to Avg. Assets (median)	0.08%	0.06%	0.07%	0.06%	0.09%
Noninterest Income to Avg. Assets (median)	0.52%	0.49%	0.44%	0.43%	0.45%
Overhead to Avg. Assets (median)	2.88%	2.81%	2.90%	2.82%	2.98%
<b>Liquidity/Sensitivity</b>					
Loans to Deposits (median %)	74.24%	79.59%	76.77%	75.85%	75.61%
Loans to Assets (median %)	59.36%	61.75%	62.49%	61.35%	63.85%
Brokered Deposits (# of Institutions)	5	5	5	5	7
Bro. Deps./Assets (median for above inst.)	0.10%	1.48%	2.97%	1.74%	2.08%
Noncore Funding to Assets (median)	14.77%	13.57%	14.55%	12.97%	10.90%
Core Funding to Assets (median)	72.44%	73.68%	74.05%	75.13%	77.58%
<b>Bank Class</b>					
State Nonmember	15	15	13	15	18
National	8	8	7	8	7
State Member	2	2	2	2	1
S&L	4	7	8	8	8
Savings Bank	7	5	4	2	3
Mutually Insured	32	33	36	38	39
<b>MSA Distribution</b>					
	# of Inst.	Assets	% Inst.	% Assets	
Hartford CT	21	10,847,618	30.88%	20.60%	
No MSA	13	14,970,448	19.12%	28.43%	
Stamford-Norwalk CT PMSA	10	2,363,696	14.71%	4.49%	
New Haven-Meriden CT PMSA	7	3,309,697	10.29%	6.29%	
Danbury CT PMSA	6	3,394,523	8.82%	6.45%	
Waterbury CT PMSA	5	13,690,449	7.35%	26.00%	
New London-Norwich CT-RI	4	3,755,098	5.88%	7.13%	
Bridgeport CT PMSA	2	326,384	2.94%	0.62%	